

## GINDALBIE COMPLETES KARARA CONSTRUCTION COST REVIEW

### COMMISSIONING OF MAGNETITE CONCENTRATOR SCHEDULED TO COMMENCE IN JANUARY 2012

Gindalbie Metals Limited (ASX: **GBG** – “Gindalbie”) is pleased to advise that it has completed a comprehensive review of the construction cost estimate and development timetable for the Karara Iron Ore Project in Western Australia, as foreshadowed earlier this year.

#### **Construction Cost**

The revised total construction cost estimate for the Karara Project is A\$2.57 billion, which is consistent with the guidance provided to the market in March (see *ASX Release – 16 March 2011*). The revised cost estimate is based on all available data from the detailed design for the Karara concentrator (currently over 95% complete) as well as tender prices for the final remaining major construction packages (structural, mechanical, piping and electrical and instrumentation) for the concentrator.

As previously foreshadowed, most of the increase (~70%) relates to increases in material quantities (such as concrete and steel) which have emerged as detailed design work nears completion and construction contracts are awarded. The balance relates to the higher cost of materials, labour and fuel due to general inflationary pressures and scope changes on the plant. Scope expansions relating to port and power line are expected to account for \$125 million of the increase in forecast capital cost, which sets the project up for its first expansion phase.

The underestimation of material quantities has been the result of the Joint Venture’s strategic decision to commence construction at Karara in 2009 prior to completion of the detailed design process in order to ensure the Project was developed as quickly as possible in the increasingly-competitive WA construction market.

Approximately \$1 billion of the overall construction cost is invested in the construction of infrastructure which is being built with additional capacity for an ultimately larger project at Karara. This up-front investment in infrastructure is expected to result in substantial cost savings over the long term as the Project increases production from an initial 8Mtpa of magnetite concentrate to its long-term potential of +30Mtpa. Approval has been given to start scoping studies on a proposed expansion of the Karara Project from its start-up production level to potentially 16Mtpa.

#### **Funding**

The ongoing construction of the Karara Project is underpinned by the existing US\$1.2 billion Karara Project Loan Facility, which is currently drawn down to US\$676 million, as well as the equity payments already made to Karara Mining Limited (KML) by Gindalbie and its partner Ansteel.

To cover its share of the estimated increased construction cost Gindalbie is considering equity alternatives that would give shareholders the opportunity to participate on an equitable basis. The Company is expected to be in a position to make a decision on the funding strategy for Stage One of the Karara Project in a few weeks time.

Gindalbie’s major shareholder, Ansteel, has indicated its commitment to support any equity raising, continuing its long-standing support of the Karara Project development.

As announced in April KML have signed a framework agreement for an additional US\$336 million working capital facility to fund non-construction related working capital and financing expenses to be incurred prior to the emergence of positive cash flows, from the sale of magnetite concentrate during the second half of 2012.

#### **Operating Cost Review**

The review of forecast operating costs for the Karara Project is nearing completion, subject to finalisation of key rail, port and mining contracts. Current indications are that forecast average cash operating costs will be in the

range of A\$65-68/t for production of 10Mtpa (8Mtpa magnetite concentrate and 2Mtpa hematite DSO) loaded onto a vessel at Geraldton Port, not including royalties.

In addition to general cost escalation since the feasibility study in 2007, a large portion of the operating cost estimate relates to revised rail and port charges as key contracts are finalised. In particular Karara is required to pay a capital charge (on top of an access tariff) for the upgrade of rail infrastructure between Morawa and Geraldton, which is built into the operating cost. In April Gindalbie announced the signing of a facility agreement for a US\$300 million bank guarantee to provide security to underpin the upgrade of this rail network by Westnet.

Unit operating costs will reduce as production is increased. As well as general efficiencies of scale, costs such as the fixed rail capital charge will be amortised across much larger tonnages. As noted above, scoping studies are already planned on a proposed expansion of the Karara Project from its start-up production level of 10Mtpa to potentially 16Mtpa. It is anticipated that average cash costs for production of 16Mtpa would be in the order of A\$55-60/t.

The identified Karara resource has the potential to support production of +30Mtpa for 30 years and while the long term operating cash costs based on annual volumes of greater 16Mtpa cannot currently be reasonably estimated, they are expected to be lower again due to further substantial economies of scale, particularly with respect to rail costs and concentrator operating costs.

Under the life-of-mine offtake contract with Ansteel (see ASX release – 30 March 2010), the pricing structure for Karara magnetite concentrate will be referenced to the Pilbara Blend price, adjusted for Karara's high grade (68.2% Fe) plus a quality adjustment to reflect the low impurity specifications and value-in-use of magnetite in the steelmaking process. The Karara project is expected to generate very robust margins because of the premium quality and subsequent pricing of the magnetite concentrate.

### **Development Timetable**

Hematite mining at Karara is already underway with trial mining of approximately 480,000 tonnes of Direct Shipping Ore (DSO) scheduled to continue until January 2012, as previously announced.

DSO mining at the Blue Hills and Terapod deposits, which are located along the Karara Ridge, is scheduled to commence in September 2011. DSO production from these deposits will ramp up with sales of ore scheduled to commence in Q1 of 2012. DSO production is expected to ramp up to approximately 2Mtpa by the end of 2012.

Commissioning of various components of the main Karara Concentrator will commence in January 2012 leading to the anticipated first shipment of magnetite concentrate in June 2012. Ramp-up of magnetite production is expected to take approximately six months with full production scheduled to be achieved by the end of 2012.

Gindalbie's Managing Director, Mr Tim Netscher, said while delays and cost escalations with major resources projects were not uncommon and while the capital cost increase is consistent with the previously provided guidance, it was nonetheless disappointing.

"However, Karara has a very large reserve and resource base, which will easily support a major long life project and it is important to take a medium to long term view," he said. "We have an infrastructure solution for the first two phases of the enlarged project including capacity for 16Mtpa through Geraldton Port, which removes our reliance on Oakajee Port for Stages One and Two of Karara. We now have a clear framework for the final seven months of construction and for the commissioning phase next year."

"Karara is a world-class project which will deliver a premium-priced, high-quality product and generate strong margins which we expect to be comparable to those generated by the majority of iron ore producers. Keeping cash costs as low as possible is important, but the real driver of profitability and shareholder value is the margin that you generate."

"In this, our first phase of development, we are investing large amounts in expanded infrastructure capacity and setting Karara up for very cost effective expansions."

"With the continued strong support of Ansteel and our shareholders, we are looking forward to now moving to complete construction and commissioning of this first phase of our development," he added.

**ENDS**

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